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HOUSING MARKET

OUTLOOK

Kitchener CMA

Canada Mortgage and Housing Corporation

www.cmhc.ca

NEW HOME MARKET

Another Strong Year Ahead

2005 will be another very impressive year for the new home construction industry. Total home starts will reach 4,280 this year - the strongest result since 1989.

Demand for new homes will remain high next year. Low long-term mortgage rates will further stimulate new home starts. Recent job gains and growing incomes will give potential buyers the financial means to act. A very tight resale home market will produce strong spill over demand - further fuelling the home construction boom.

On the supply side of the equation, inventories of unabsorbed homes are low. Consequently, developers will bring more supply on-line to meet new demand. Higher new home prices will give developers the financial incentives to supply new homes to build.

Housing starts will total 3,870 in 2006. Although down slightly, home starts will remain well above the 40 year average (see chart below).

Single-detached home starts will trend lower next year. Construction will begin on 2,000 detached homes.

Issue: Fall 2005

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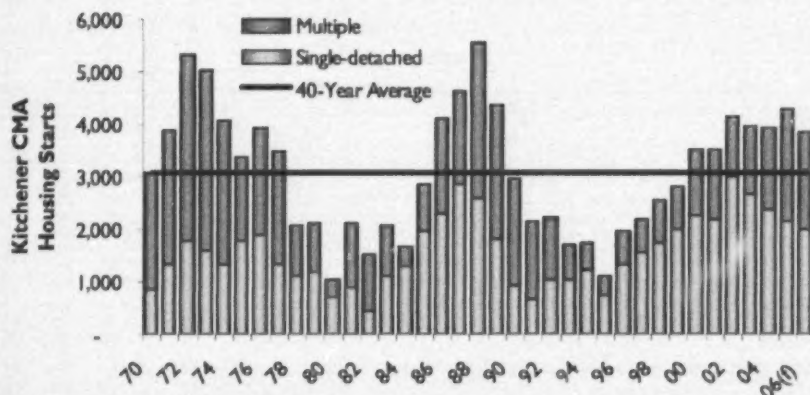
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Housing Starts will Remain Strong



With new detached house prices rising rapidly, many buyers will turn towards more affordable multiple family home types such as townhouses and apartments.

Over the last five years the multiple-family segment of the new home market has grown substantially. In 2000, 36 per cent of all new homes built in the Kitchener CMA were multiple family homes. In 2005, that share has increased to almost half. The marked

shift away from detached homes is partly the result of higher new home prices, but also a result of re-urbanization and intensification. Municipalities are actively promoting more in-fill development and conversion projects.

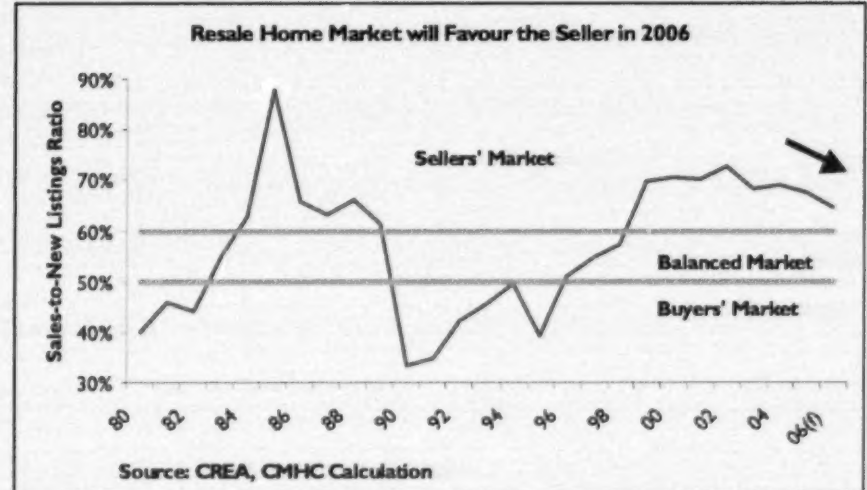
Multiple family housing starts will remain very strong. Construction will begin on a total of 1,870 semi-detached, townhouses and apartments next year. While down slightly from this year, multiple starts remain above their historic average and will continue to represent a large share of new home construction.

RESALE HOME MARKET

Another Record Year in Kitchener-Waterloo

Home sales registered under the Multiple Listings Service (MLS®) will reach an all-time high this year. A total of 6,075 homes will change hands - up 2.4 per cent from 2004. Strong demand relative to supply will also push up the average house price to \$219,000 this year - up 6.5 per cent.

Looking ahead to 2006, the fundamentals remain in place to produce another strong year. Low mortgage rates, exceptional local job growth and upbeat consumer attitudes will translate into strong demand for homes, and will



keep the local real estate industry operating at full throttle. MLS® sales will grow by more than one per cent and will break yet another record, reaching 6,150 sales in 2006.

Strong equity gains over the last eight years will ensure plenty of choice in the resale home market. Many homeowners will put their homes up for sale to move into a home more suited to their needs and tastes. This will contribute to an increase in new listings. A total of 9,500 homes will be brought onto the market next year, an increase of 5.5 per cent.

The sales-to-new listings ratio is an indicator of conditions in the existing home market. With a sales-to-new list-

ings ratio well above 60 per cent, Kitchener-Waterloo's home prices are rising and the resale home market favours the seller.

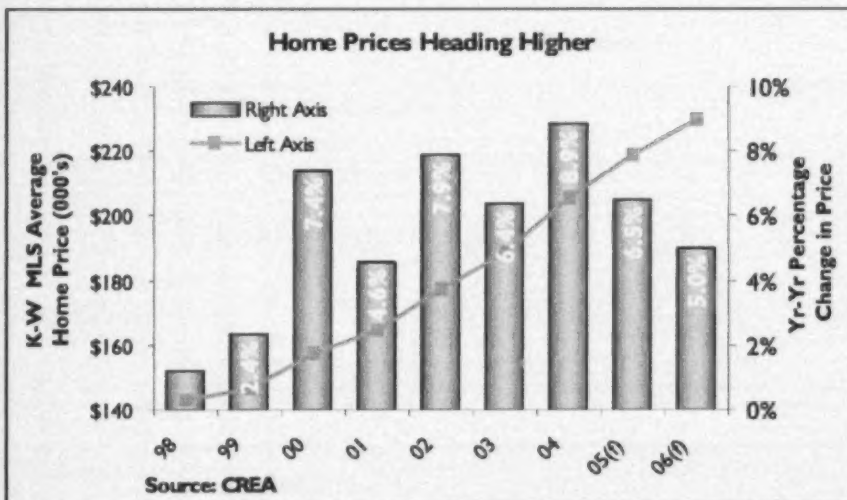
Supply will grow faster than demand next year and the resale home market will loosen up a bit. More choice for buyers will relieve some of the upward pressure on home prices. The average price of a home will continue to rise in 2006, albeit at a slightly slower rate, and reach \$230,000.

Rising home prices have many people sounding affordability concerns. Due to low mortgage rates, however, the monthly costs of carrying a mortgage are very reasonable. Long-term mortgage rates are not expected to rise much in the year to come. Monthly principal and interest costs will remain low. Rising incomes will also help alleviate some pressure stemming from rising house prices.

Strong Cambridge Resale Home Market

The Cambridge resale home market will have a strong year in 2005. MLS® sales will top 3,050. Strong sales momentum and solid economic fundamentals will result in 3,200 resales in 2006.

The Cambridge resale home market favours the seller. Tight resale home



market conditions will ensure rising house prices. Home prices under the Cambridge real estate board will rise 7.8 per cent this year and 6.2 per cent in 2006. The average price of a home in Cambridge will top the \$240,000 mark by next year.

ECONOMIC TRENDS

Exceptional Local Job Growth

Exceptional local job growth will translate into strong demand for homes going forward. Jobs are a vital component of housing demand. Granting newly employed individuals the financial means of owning or renting a home. Employment in the Kitchener area is up 4.8 per cent over August last year - four times the growth seen at the provincial level.

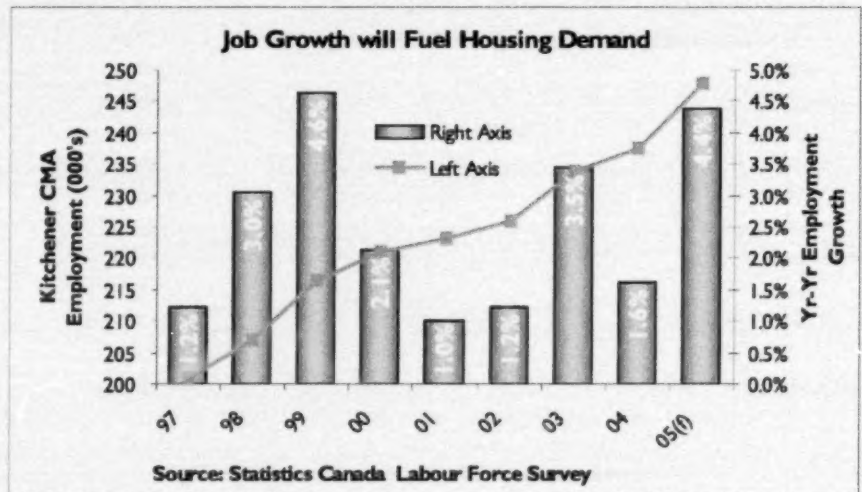
When it comes to buying a home full-time stable employment is an asset. Most of the job growth in the Kitchener CMA has been full-time. More than 8,000 new full-time jobs were added to the local economy between August 2004 and August 2005.

Today's newly employed worker will become tomorrow's future buyer. Most newly employed workers do not buy a home immediately. Typically, one to two years is required to prepare for the responsibilities of homeownership - to save up for a down payment and time to establish a solid work history.

The construction, finance, insurance and real estate sectors are riding the coat-tails of a booming housing market and are experiencing a significant rise in employment levels.

Consumers remain upbeat

The index of consumer attitudes, as measured by the Conference Board of Canada, remains strong in Ontario.



Consumers are confident in their ability to purchase and pay for a home over the long-term. Within Kitchener, favourable economic conditions this year and next will keep consumers in a spending mood, which will support the local housing market.

Mortgage rates will remain low

Mortgage rates will remain low in 2005 and rise moderately in 2006. Tame inflation, and a strong Canadian dollar vis-à-vis the U.S. dollar will restrain the size and speed of Canadian interest and

mortgage rate increases in 2005 and 2006.

Short-term mortgage rates are expected to be 25-35 basis points higher in 2005 than in 2004 while longer-term rates will be lower by a similar amount in 2005 compared to the previous year. While still low by historical norms, mortgage rates are expected to rise gradually by 25-50 basis points in 2006. One, three and five-year mortgage rates are forecast to be in the 4.50-5.75, 5.25-6.25, and 5.50-6.50 per cent ranges respectively in 2005-06.

DEMOGRAPHIC TRENDS

Population in the Kitchener CMA has increased steadily over the last 10 years, growing by 1-2 per cent a year. The natural increase (births minus deaths) accounted for a large portion of that growth. The Kitchener CMA is benefitting from a young population. With a median age of 35.3, Kitchener boasts the youngest population in Ontario. This younger population represents a big pool of potential first time buyers.

In an environment of already high new home prices and rising mortgage rates, to be successful new homes geared towards these buyers need to be affordable. Consequently, townhouses and condominium apartments will represent a larger share of the new home sales as price and interest rate sensitive first time buyers look for stretch their dollar.

Migration has also accounted for a large portion of population growth. Strong local job creation and affordable homes in the area continue to attract people to the region and is contributing to local housing demand.

Housing Market Outlook Summary Kitchener Census Metropolitan Area

NEW HOME MARKET	2002	2003	2004	2005(E)	% Change	2006(F)	% Change
Single-detached Starts	3,007	2,663	2,374	2,130	-10.3%	2,000	-6.1%
Multi-family Starts	1,123	1,292	1,538	2,150	39.8%	1,870	-13.0%
Total Starts	4,130	3,955	3,912	4,280	9.4%	3,870	-9.6%
NHPI - Annual Change (Per Cent)	4.1%	3.3%	4.5%	5.5%	n/a	4.5%	n/a
RESALE MARKET							
Kitchener-Waterloo							
MLS ¹ Sales	5,245	5,310	5,931	6,075	2.4%	6,150	1.2%
MLS ¹ New Listings	7,224	7,757	8,601	9,000	4.6%	9,500	5.6%
Sales-to-Listings Ratio	72.6%	68.5%	69.0%	67.5%	n/a	64.7%	n/a
MLS ¹ Average Price	\$177,551	\$188,905	\$205,639	\$219,000	6.5%	\$230,000	5.0%
RENTAL MARKET							
Apartment Vacancy Rate	2.3%	3.2%	3.5%	3.3%	n/a	3.1%	n/a
Average Rent (2 bedroom)	\$750	\$754	\$765	\$777	1.6%	-	-
ECONOMIC OVERVIEW							
Mortgage Rate (1 year term)	5.17%	4.84%	4.59%	4.94%	n/a	5.52%	n/a
Mortgage Rate (3 year term)	6.28%	5.82%	5.65%	5.66%	n/a	6.04%	n/a
Mortgage Rate (5 year term)	7.02%	6.39%	6.23%	5.95%	n/a	6.27%	n/a
Employed ('000's)	226.0	233.8	237.6	248.0	4.4%	257.0	3.6%
Net Migration (Census Year)	4,789	3,883	5,852	5,800	-0.9%	5900	1.7%

Sources: CREA, Kitchener-Waterloo Real Estate Board, Real Estate Board of Cambridge, Statistics Canada, and Conference Board of Canada

¹Multiple Listings Service (MLS) is a registered certification mark own by the Canadian Real Estate association (CREA)

Housing Market Outlook is CMHC's forecast for new home and resale markets. Issues are released in the Spring and Fall of each year. For more information contact Milan Gnjec at (416) 218-3424 or mgnjec@cmhc-schl.gc.ca

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